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# REPORT OF THE EXPERT MEETING ON CLUSTERING AND NETWORKING FOR SME DEVELOPMENT

Held at the Palais des Nations, Geneva,
from 2 to 4 September 1998

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## I. AGREED CONCLUSIONS AND RECOMMENDATIONS

1. The Expert Meeting reaffirmed the importance of SMEs and their critical contribution to employment, growth and development. It is also recognized that globalization has brought with it a new competitive environment and hence new requirements for sustained competitiveness and cooperation on the part of firms everywhere in the world.

2. The experts noted that clustering is a phenomenon in industrial development and thus over time the number of firms in a given branch and in a given location may restructure and grow. An emerging cluster attracts additional firms since inputs, machinery and qualified workers are easily available.

3. The experts also pointed out that clusters with intensive cooperation between firms, and firms and institutions, are much more rare, especially in developing countries and economies in transition. But it is this type of cluster that offers specific advantages and growth opportunities. Within a cluster of cooperative firms SMEs have more opportunity to become internationally competitive and to penetrate the global market. Clusters are often integrated into national and international networks which complement spatially concentrated clusters.

4. The experts discussed the relevance of clustering and networking for SME development, including the critical role of governments at all levels, business associations and other support institutions, including financial and educational institutions, and NGOs both individually and collectively in helping clusters and networks to grow sustainably. The experts made the recommendations set out below to the Commission on Enterprise, Business Facilitation and Development.

5. Considering the deep economic, social and political crisis facing most African countries, and taking into account the key importance of SMEs in Africa, it is highly recommended that special attention and assistance be accorded by local, national and international actors to the promotion and development of SMEs for ensuring the sustainable development of the continent.

*Addressed to governments*

6. Policy makers at all levels are invited to review their traditional industrial development policies with respect to both manufacturing and services and to give appropriate priority to promoting clustering and networking as an effective strategy for SME development.

7. Central governments, particularly in developing countries and economies in transition, are invited to maintain their focus on creating an enabling macroeconomic environment, and a favourable legal and regulatory framework, and providing basic infrastructure and services, including education, which encourage clusters and cooperation between firms. They are invited also to establish the appropriate level of decentralization for policy formulation and implementation, and for support measures for SME development.

8. Governments, together with non-governmental actors and public-private partnerships, are invited to aim at strengthening not only tangible but also and specifically intangible locational factors such as improving capabilities and

responsiveness of local administrations, providing real services and strengthening an innovative milieu which would lead to positive linkages within the domestic economy and greater transfer of skills and technology. The experts suggested that this approach could also help address the problem of poor backward and forward linkages and the low level of technology and skills transfer.

9. Given the importance of information and knowledge acquisition and dissemination for the growth of dynamic clusters, measures should be taken to improve the exchange of information and transfer of knowledge through initiatives such as the exchange of personnel between firms, universities and vocational and technical schools, and the utilization of university outreach programmes for SMEs, benchmarking, monitoring and experience exchange programmes.

10. Given that measures to stimulate SME clustering and networking will need to be formulated and implemented at the local and regional levels, governments should encourage and empower meso-level institutions (e.g. trade, professional and business associations, NGOs and SME support systems) to play an active role in promoting SME networking and clustering rather than assisting individual firms.

11. Business incubators, innovation centres and technology parks are demonstrating effectiveness in creating successful enterprises, economic revitalization and other benefits, and should be initiated under appropriate conditions by universities, public-private partnerships and other agencies. Governments are invited to consider supporting such business development centres. Such organizations should be operated in a business-like way.

12. Experts stressed the potential benefit of effective private-public partnership to support the emergence of a local development vision and the implementation of actions to give effect to that vision. Governments at all levels are therefore encouraged to foster continuous and effective dialogue and consultation with the private sector in the policy-making process.

13. Governments should seek to achieve a balance between policies which stimulate both competition and cooperative behaviour which improves efficiency and competitiveness.

*Addressed to government, the international community and civil society*

14. Leadership and trust, which are crucial for effective networking and clustering, should be nurtured through innovative programmes which focus on bringing together a critical mass of committed and dynamic entrepreneurs.

15. Bearing in mind that policies and programmes must be tailored to the stage of evolution in the cluster, network or enterprise, governments, the international community and civil society are invited to promote SME clustering and networking through measures such as:

- creating SME networking opportunities (e.g. seminars, fairs, study tours, exchange of staff);

- developing manuals drawing on the expertise and experience of the relevant bodies on how to create and run a business

association, business incubator, innovation centre, export production village and special economic zone, taking into account the stage of development and cultural diversity;

- encouraging cooperation among service providers, and avoiding oversupplying and overlapping business development services;

- promoting support systems which are initially partially subsidized, particularly when directed to innovation and venture creation.

16. Bilateral and multilateral bodies should:

- promote networking and periodic information exchange on their programmes and projects;

- work together to increase the synergy among their programmes, in particular between those which offer financial services and those which offer non-financial services.

17. The cost-effectiveness of alternative SME support programmes now needs to be verified by the responsible agencies. These programmes need to be evaluated on the basis of agreed indicators such as impact, sustainability, replicability, skills enhancement and linkages, impact on directly assisted businesses and other businesses, meso-level institutions and business-government links.

*Addressed to UNCTAD*

18. UNCTAD should prepare a study on innovative, non-fiscal incentives which can be used to stimulate clustering, promote investment, develop positive linkages within the domestic economy and bring about a greater transfer of skills and technology.

19. Given the importance of creating a culture of innovation within firms, the experts recommended that UNCTAD work together with other UN agencies (UNIDO, ITC, ILO, UNDP etc.) to realize the benefits from complementary SME programmes.

20. Given the importance of the proper choice of business development services, UNCTAD in association with the Committee of Donor Agencies on Small Enterprise Development should study evaluation methodologies and advise governments on appropriate evaluation methods for different circumstances. In this context, UNCTAD is requested to take action on the recommendation of the Expert Meeting on Government and Private Sector Roles and Interactions in SME Development, held in July 1997.

## CHAIRPERSON'S SUMMARY OF THE EXPERTS' INFORMAL DISCUSSIONS

### 1. Regional clusters and enterprise development

21. The first informal meeting opened with presentations by resource persons who were facilitating the process of change among SMEs in Brazil and Nigeria. The first two presentations considered the case of Santa Catarina in Brazil, where a number of successful clusters have been formed over the past few years. They considered the reasons for this development from the perspective of local change agents.

22. The importance of a period of crisis and increased competitive pressure for stimulating cooperation was particularly emphasized. In Brazil, the early 1990s had seen an opening of the economy and thus increased pressure from imports, at the same time as the economy was experiencing macroeconomic hyperturbulence, high interest rates and very high rates of inflation. The effects of the extremely unfavourable macroeconomic conditions on firms were severe, creating pressure for change. Also, there had been a change in the behaviour of local policy makers as well as new forms of interaction between firms, and between firms and business associations. For example, business associations were actively encouraging cluster formation. However, it was observed that a lack of trust between firms can make clustering difficult.

23. The second resource person presented his experiences as a businessman from the textile cluster in Santa Catarina and a change agent who had been instrumental in the development of the cluster. His presentation described the particular adjustments made by his firm in order to deal with the economic crisis, in particular by reducing vertical integration, creating partnerships and increasing outsourcing, and the effects that this had on cluster creation. The collective actions taken by the firms in the area to adjust to their situation, such as information exchange on purchasing conditions, and co-arranging vocational and management courses, were also described.

24. Throughout the presentation, the importance of leadership - in this case that of the speaker himself - in stimulating fundamental change and cluster formation was emphasized. As in the first presentation, the central role played by business associations was noted. It was suggested that, in the light of severe crisis, attitudes, habits and practices were more flexible than might be expected, which suggested that the lessons drawn from Santa Catarina could be relevant for other countries.

25. The third presentation discussed the case of Nnewi, a small town in Eastern Nigeria which supplies more than 80 per cent of all automotive parts in Nigeria despite generally low levels of education, very poor infrastructure and minimal government support. The ability of firms to obtain technology from Taiwan Province of China, cultural affinity and the apprenticeship system for training new entrepreneurs were cited as important reasons for Nnewi's success despite a lack of support from the Federal Government and from the State Government. However, it was noted that although levels of trust within enterprises were high, since employment was mainly based on family networks, there was very little sharing of information between firms. As firms move into more complex products, the speaker predicted, there would be a movement towards greater levels of inter-firm cooperation within the cluster.

26. Following the presentations, the discussion was opened to the floor. An expert provided information on the Bangalore software industry cluster in India. The main points made were that some clusters arise spontaneously, that even these are set in motion by deliberate actions or circumstances, in this case the action by the Indian Government to locate particular industries in Bangalore, and that a pool of skilled labour developed as a result. It was noted that in highly competitive markets, time is needed for networks to emerge. High levels of competition tend to discourage trust, and thus deter firms from engaging in backward linkages with other firms. As a result, networks are only beginning to emerge in Bangalore at this point in time. Finally, the importance of the State in providing the necessary infrastructure was emphasized. In Bangalore, inadequate infrastructure is increasing the costs faced by small firms and thus inhibiting their growth.

27. During the more general discussion, experts from Switzerland, Germany and the ILO emphasized the importance of establishing trust among geographically clustered SMEs, as well as the difficulties involved. The importance of good leadership - an issue which emerged in all the case studies presented - was also stressed. However, the Swiss representative, using a study of Norwegian SMEs, pointed out that SMEs are in general much more conservative in respect of trust and that they have fewer networks than the larger companies. As regards the role of the government in facilitating the building of trust among SMEs, the German expert thought that this role would be very limited.

28. The importance of participation in trade fairs in establishing trust among entrepreneurs and forming personal networks, thus contributing to the formation of clusters, was emphasized. The experience of the footwear cluster in southern Brazil was mentioned as a good example of the positive and important effect which participation in trade fairs had on enterprise and market development through exposure of entrepreneurs to new technologies, marketing, the gathering of market intelligence and several levels of networking. Governments could play an important role in making attendance at trade fairs possible. Several European countries were known to provide assistance to SMEs from least developed countries which wished to participate in trade fairs.

29. The issue of trust between SMEs and the government was raised by two of the resource persons. Both pointed out that SMEs lack trust as regards the government, seeing it as a source of problems, such as taxes, regulations and inspections, rather than assistance. It was suggested, therefore, that local governments should take the lead in providing assistance to SMEs.

30. The definition of clusters was also discussed. The Egyptian expert pointed out that the simple groupings of geographically bounded similar industrial establishments did not constitute a cluster according to the formal definition. For this, it was suggested, firms in a grouping must achieve collective efficiency or share common threats. One of the resource persons suggested that the concept of clusters should also include supply chains and horizontal networks.

31. The issue of enterprise clustering based on common ethnic affiliation was raised by experts from Israel and Switzerland. It was noted that such networks have been successful among SMEs in those countries. One of the resource persons, however, while acknowledging the pervasiveness of ethnic-based enterprise

networks and the significant role that they play, suggested that such networks are a substitute rather than a basis for dynamic development. He suggested that developed countries, for example, do not have to rely on these networks because of the existence of institutions, i.e. rules, norms, habits and practices that facilitate anonymous transactions.

32. The importance of information and information technologies in promoting SMEs and SME clustering was emphasized by the expert from Ghana. He stressed the need for training to encourage the use of information technologies for management in developing countries. This view was endorsed by one of the resource persons, who suggested that information technologies could also facilitate SMEs' access to international markets.

33. The role of intermediary institutions and government agencies in terms of promoting networks and clustering was also emphasized by the expert from the ILO. It was suggested that such institutions can play a role both in promoting already existing clusters and in creating new ones.

34. The issue of the access of SMEs to finance was raised by the representative of the Philippines. One of the resource persons, on the basis of his experience in Brazil, argued that there was a need for SMEs to gain financial support from official financial institutions, even though this might involve lengthy bureaucratic processes. To this end, he suggested that SMEs needed to establish credibility.

### 2. Export processing zones and local incubators: The importance of SME support systems

35. The continuing challenge for policy makers and other development actors is to develop innovative, cost-effective support systems to help SMEs become technically efficient and competitive. A resource person with long experience in creating support systems noted that a consensus has yet to be reached on "best practices", and that there is still some debate about whether subsidized support to small enterprises can indeed be justified. Business development service mechanisms in developing countries are under pressure to be self-financing as governments and donors face diminishing resources. However, SMEs in the better-endowed OECD countries continue to receive significant state support.

36. In recent years, there has been a change in the approach to meeting the needs of SMEs. The dominance of government-established enterprise support centres is increasingly giving way to public-private partnerships and voluntary associations. There has also been a move towards convergent enterprise support systems targeting technology-based small enterprises, which comprise both non-financial support services (human resources development, continuing education, research and technology transfer, information and technology sourcing, counselling on management, marketing, accounting, quality control and environment) and "work spaces" in which businesses operate. These systems provide a wide range of support related to all the stages of business development from start-up to the creation of a global market player. Typical examples of convergent enterprise support systems are business incubators which nurture start-up businesses and early-stage ventures through focused services and technology parks which require larger investments with longer periods of maturity. Technology parks are usually linked to or sponsored by universities.

37. The enterprise support systems as typified by incubators and technology parks can be, and should be, extended and replicated to all other "work spaces" in which businesses operate, such as export processing zones (EPZs), industrial parks and enterprise clusters. Examples of clusters whose growth and evolution have been accelerated by such support systems are the textile cluster in Tiripur, India, where a variety of city, state and federal agencies and cooperative associations for research, design, banking, warehousing and export have progressively augmented materials supply and marketing systems. The famous Silicon Valley cluster in California is another example of a cluster which has been sustained by the confluence of strong research universities which create the knowledge assets, a critical mass of professional services and venture capital, and by the culture of risk-taking and competition.

38. To be able to achieve optimal effectiveness and success, business development systems must be managed as entrepreneurial business operations. The management of service centres supporting the cluster's constituents have to be carefully recruited, properly trained and well paid. The energy and resources of the support facility should be focused on developing the businesses within the cluster and enable them to learn from one another and continuously innovate. The market is the real focus of the support system, and changing markets require continuous innovation. The stimulus for innovation comes best from an environment which is competitive and encourages risk-taking.

39. Cost-benefit analyses of convergent support systems have shown that the benefits derived from convergent systems of support are as great as, if not greater than, those derived from more traditional support systems. The main factors contributing to the success of the firms nurtured by incubators seem to be factors which cannot be easily quantified, such as social benefits, including skill enhancement and changes in attitude and business culture. The intangible and non-quantifiable nature of these benefits from enterprise clustering prompted a debate on the need to undertake comparative cost-benefit analyses of government interventions based on the more traditional type of support measures (including EPZs) and interventions supporting spontaneous clustering and the development of convergent enterprise support systems, so as to help governments faced with limited resources make a cost-benefit judgement concerning available alternatives.

40. The idea that services and work spaces are interdependent, and should ideally form an integrated, organic system of support, is increasingly taking hold. It was noted that there has been a shift from the traditional provision of SME development centres, science parks and industrial estates towards business incubators, which themselves have moved from focusing on businesses located within incubators to a more sectoral approach. International enterprise centres are the third generation of incubators providing convergent services, which include venture capital for both domestic and foreign small enterprises. One example of an international enterprise centre is in Malaysia. However, it was noted that this centre suffers from a critical shortage of skilled manpower, which means that the park has not been able to attract the numbers and types of businesses which it would like to attract.

41. The importance of infrastructure, including investment in human capital, for encouraging the formation of, and for sustaining, clusters and networks was generally appreciated. It was agreed that for many developing countries creating

a favourable macroeconomic environment, including the provision of basic infrastructure, remains the best and primary intervention. It was observed, for example, that provision of basic infrastructure was one of the critical factors contributing to the development of the information and communications technology cluster in the Netherlands.

42. A number of delegations questioned the usefulness of EPZs as a form of enterprise clustering and expressed doubts about their ability to retain jobs and investment in terms of the phasing out of the Multi-Fibre Agreement and the coming into effect of WTO requirements. Among the criticisms levelled against EPZs were their general failure to effect skills and technology transfer to locals, and to create linkages with the rest of the domestic economy, and their exploitative labour and environmental practices. Two examples of successful EPZ experience, notably the *maquiladora* in Mexico and the case of Mauritius, were, however, presented as possible exceptions to these criticisms.

43. The benefits of EPZs to the local economy can be illustrated by the case of Mauritius. Its delegate spoke of the contributions which EPZs had made to his country's economy, and the positive "multiplier effects" they had had in other areas, such as population control, export diversification and an overall increase in the standard of living. The ILO representative suggested that the policies adopted by Mauritius, and also by Costa Rica, in overcoming problems of EPZ development and management might be considered by other potential host countries.

44. The reasons for the relative success of Mauritius in diffusing economic and other benefits to the rest of the economy seem to be that it upgraded its technology and invested in the workforce when faced with competitive pressure. In addition, the actions taken by the firms within the EPZs may have been further reinforced by the actions of business associations. It was recognized that EPZs were not static and were in fact capable of evolving upwards or downwards. Some delegations felt that it was possible to transform them so that they too delivered benefits similar to those obtained by other forms of clustering. This transformation can be achieved if governments restructure incentives in such a way that firms locating in the EPZ are rewarded according to their investments in, for example, research and development, the use of local inputs and levels of technology transfer.

45. Regarding the use of incentives, the ILO representative noted that when enterprises import all their requirements and export all their outputs, the benefits to the host country will be limited. There was an urgent need for win-win strategies involving reward systems based on criteria such as number of jobs created, percentage of local inputs and level of technology transfer. The Singapore model, whose success is rooted in its investment in human resources, strong support systems for SMEs and research facilities, could serve as an example. EPZs could create benefits, as illustrated by Singapore's technology exports to other countries in the region. In Penang (Malaysia), no technology transfer outside the zone has been effected, and while foreign direct investment poured into China's EPZs there was no corresponding technology flow or linkages inland.

46. Following the presentation on EPZs and local incubators, the expert from the United Kingdom referred to the need to evaluate the cost and benefits associated with such facilities. It was noted that in addition to frequently used success indicators such as number of jobs created, other measures had been proposed in two newly published books.[1] Since conditions vary among countries, it would be useful to undertake a survey comparing enterprises that benefited from EPZs and local incubators with those that did not. The United States experience has indicated a strong correlation between enterprises using incubators and survival rates; it should be noted, however, that enterprises admitted to the incubator programme have been screened for technical viability and marketing potentials. The representative of Switzerland added that her own country's programme had assisted certain enterprises for which chances of success seemed almost non-existent by standard measures at the outset, and that these had succeeded against all expectations.

### 3. The role of public policies in supporting enterprise networks and clusters

47. The last resource person noted that there was a growing awareness among policy makers of the need to develop economies on a high value-added, innovative basis, which in its turn might require new methods of industrial organization and supply chains. Acquisition and dissemination of knowledge, particularly to small firms, has become a priority; there is also a growing need for mechanisms and institutions through which local firms can access international markets. Three basic types of clusters and networks, including supply chains, horizontal networks and sectoral clusters, can be identified. Many of the policies to promote horizontal and vertical networks or supply chains are relevant to the promotion of the larger-scale sectoral clusters. Intermediary institutions could play an important role in developing supply chains. Supportive actions with respect to vertical supply chains might include the following: researching and analysing the configuration of supply chains acting as brokers or facilitators, establishing connections to markets, identifying missing functions in the chain, forming supply chain associations, developing and guaranteeing competence along the chain, ensuring fair dealings and sustainable development along the chain, and building intraregional cooperation. Technical support institutions have an important role to play in promoting horizontal linkages, particularly among small firms.

48. Policies to promote sectoral clusters could include strategies to attract multinational companies and to encourage them to develop their supply chains locally.

49. Intermediary institutions (i.e. self-help institutions) might also play a role in helping to acquire international knowledge and linking up local firms with knowledge institutions. The experience of industrialized countries suggested a move towards the development of new types of public/private policy networks.

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[1] ILO, *Business Incubator and Economic Development* and *Value for Money*.

(a) The context of clustering

50. Clusters responded to constant change, characterized by globalization and decentralization and a renewed focus on the role of the small firm in the development process. It was observed that clusters in OECD countries were market-induced responses of firms and industry to confront new challenges and maintain competitiveness. Clustering and networking were important mechanisms in promoting innovation.

(b) Elements and building blocks of clusters and networks

51. Since the main actors in the formation of clusters were SMEs, governments did not need to take the lead. Cluster building requires organization and leadership skills, and much can be learned from the experience of the Mexican *maquiladoras*. Their managers spontaneously formed associations. Through their activities at the local and regional levels, they have been able to achieve policy change at the federal level.

52. Clusters could also be formed at levels below that of small and medium-sized enterprises (e.g. at the micro-enterprise level or in the informal sector). SME cooperatives, such as producers' cooperatives or credit cooperatives, could facilitate marketing or the making available of facilities that could be shared. Sometimes these groupings provided common social security services for their members. Franchising was also a form of SMEs working in collaboration.

53. In the Emilia Romagna region in Italy, which now includes 300,000 enterprises in an area of almost 4 million inhabitants and is specialized in traditional but knowledge-intensive industrial production, clusters were neither created nor induced by government. However, their transformation into organized clusters began some 20 years ago when the regional governing body took a political decision to provide services and assistance to networks of firms rather than to individual firms, with a view to developing the entire region. The current distribution of clusters represents the historical consolidation of such policies. Services are provided by a system of sectorally specialized centres, coordinated by a half public/private entity (the Regional Development Planning Agency), in close contact with research centres, trade unions, universities and local banks, which are sometimes also part of the administrative council of the centres. Services are highly subsidized when they play a strategic role for the general development of the region, or when they are totally new and experimental. Firms, once established, move on to the market of private providers. Services provided by intermediaries include, for example, assistance in finding research-related contacts with universities, which small firms could not individually establish successfully.

(c) The role of the government

54. Since building clusters, like starting enterprises, is a dynamic and organic process, the government's interventions have to be very specific and take into account both the level of national development and the various stages of evolution of the cluster. The role of the government should not be to impose structures on business, but rather to stimulate public-private sector dialogue and to facilitate partnerships between actors who would normally have no

interaction. Governments should put in place or stimulate existing meso-level institutions, to play an active role in promoting SME clustering and networking.

55. Governments should continue to focus on creating an enabling macroeconomic environment by reducing regulatory constraints and adapting the overall legal and regulatory framework to favour clustering and networking. The important role of the government in providing basic infrastructure was emphasized. However, where a government could not provide adequate infrastructure, the private sector often had to step in. In this respect, the concept of concertation - that is, partnerships between the public and the private sector - needed to be given adequate prominence to provide such basic services as housing, security and transport.

56. The expert from Benin noted that there were huge differences between SMEs in developed and in developing countries. In developing countries, the role of the State was even more important for enterprise development, given the generally lower level of development of the indigenous SMEs. Major obstacles for SMEs remained at the levels of market access and networking. In cooperation with and complementary to private sector institutions, governments should assist SMEs. One area where governments in developing countries could make an impact was in the dissemination of information relevant to entrepreneurs. However, these governments lacked the means to assist their SMEs.

57. It was pointed out that in economies in transition to a market economy, e.g. Poland, the reform process had not yet reached a stage where enterprise clustering could appear. Local government policy includes networking for enterprises with other domestic enterprises as well as with foreign enterprises. Local government bodies are instrumental in providing information to foreign enterprises wishing to establish relations with Polish businesses.

58. The expert from Mexico explained that as of May 1995, Mexico, through its Programme of Industrial Policy and Foreign Trade (PRONAFICE), stressed the need to unify all programmes of industrial policy and economic deregulation, as well as those related to foreign trade and the promotion of exports. In this context, Mexico's industrial policy established eight strategic policies: macroeconomic stability and financial development; creation and improvement of physical infrastructure, human and institutional resources; improvement of technological infrastructure for the development of industry; economic deregulation; promotion of exports; international trade negotiations; promotion of economic competence; and promotion of productive networks. With regard to the promotion of productive networks, the Government has aimed at strengthening the competitiveness of SMEs through different programmes such as the promotion of clusters and a variety of industrial information systems. In addition, a National Council for Micro, Small and Medium-Sized Enterprises has been established.

(d) The role of international organizations

59. To achieve collective efficiency, more effective networking of United Nations bodies dealing with SME development, national and donor-funded enterprise support agencies and intermediary bodies was needed. Governments could not cope with the multitude of policy advice given, and there was therefore an urgent need to develop a common vision on clustering and networking specifically, and

enterprise development in general, based on national and international experiences.

60. During the 1998 ILO Conference a significant set of policy recommendations for SME development was adopted and could serve as useful guiding principles for UNCTAD's Expert Meeting. The ILO has put in place a special programme to assist countries in implementing these recommendations.

Lessons learned

61. Three United Nations organizations - UNIDO, ITC and UNCTAD - were invited to present technical assistance programmes which they have developed to promote networking and clustering among SMEs. The presentations focused on the main lessons learned from their activities in the field.

62. EMPRETEC, UNCTAD's capacity-building programme for entrepreneurship, innovation and partnering, emphasizes the importance of trust- and confidence-building among entrepreneurs, as well as the need to change the mindset within the business community and at the institutional support level, in order to introduce a culture of innovation and cooperation. In addition, an ongoing exchange between government structures, especially at the local and regional level, meso-level institutions and entrepreneurs, facilitates relevant changes in the enabling environment.

63. To reinforce trust and confidence at the entrepreneurial level, EMPRETEC starts with a two-week, highly experiential achievement motivation workshop, which strengthens key aspects of entrepreneurial behaviour. Motivated by the dynamism created during the workshop, the entrepreneurs almost immediately form an association, a network of "empretecos", to exchange experiences and information or to look for potential business partners. To date, the network has grown to over 10,000 entrepreneurs in ten countries, and regular regional and global EMPRETEC fairs have resulted in local as well as cross-border business partnerships. The integrated approach of business support services encourages the entrepreneurs to work on all aspects of innovative business improvement. A coalition of public-private sector institutions, represented on the EMPRETEC Advisory Board, ensures the sustainability of the programme.

64. UNIDO's programme on private sector development involves five levels of intervention. These include preliminary activities, the promotion of networks of enterprises, restructuring at the firm level, the improvement of the institutional environment, and the improvement of the policy and regulatory framework. From the programme's experiences in Latin America, Asia and Africa, UNIDO has learned that there is no single model regarding how to establish networks and clusters and that the level, scale and type of intervention cannot be predetermined. These always depend on the local environment. These some cases it is better to start by stimulating support institutions or the system of governance before establishing networks and in other cases it may be more logical to begin by establishing networks which could then stimulate improvements in existing clusters and institutions. For example, in Honduras the programme began by setting up enterprise networks because the entrepreneurs were ready and willing to cooperate. In Jamaica, however, the already strong institutional framework in place made this the logical level at which to initiate interventions aimed at fostering networking and clustering.

65. In promoting networking and clustering UNIDO found that involving entities outside the cluster could often contribute to the sustainability of the project by strengthening the institutional framework. For example, in Honduras the programme utilized local consulting firms as network brokers and providers of other services. While the UNIDO programme specifically targets SMEs, UNIDO has learned that it is often necessary to include larger firms in the networks or clusters if these firms can provide a positive impact or benefit for the smaller firms. For example, in Jamaica, the large firm within the furniture cluster set up and funds the technical centre for the cluster. A key lesson learned from UNIDO's experience in the field concerns the issue of the self-sustainability of SME support institutions/service providers. It suggests that the expectation that such institutions can be wholly self-financing is unrealistic and undesirable because their clientele, the SMEs, are unlikely ever to be in a position to pay the market rate for their services. Therefore, forcing SME support institutions to be 100 per cent self-financing will mean that they would have to service larger firms and not SMEs.

66. The ITC's recently launched International Competitiveness Gauge could provide a major stimulus to networking among exporting firms in the future. The Gauge helps individual firms to assess and review over time their performance against that of other national and international competitors. It is administered by industry associations, which also play a vital role in providing counselling services to firms that wish to improve their performance in areas identified by the benchmarking exercise. Firms which had gone through this benchmarking exercise began to seek opportunities to exchange information about how other firms, including their competitors at home and abroad, were doing business. As a result, the ITC has created a network linking national business associations managing the Gauge to others all over the world and thus fosters inter-firm cooperation on a global scale. For example, through this network a firm producing clutches in India found a technical partner in Germany.

67. The ITC has extensive experience in promoting clustering through its Export Production Villages (EPVs). An EPV is a cluster of one or more villages which has a comparative advantage in the production of one or more products for export. These villages are brought together in a formal structure and share a number of services - marketing, production-related services, and financial and other support - which it would be difficult for them to access individually. The EPV projects in Sri Lanka and Ghana are the ITC's two well-documented EPV projects, the findings from which indicate that EPV clusters are a valuable tool for SME development in rural areas. An important lesson to be learned from experience with EPVs is that their focus should shift from mere production to marketing and that the assessment of demand and the setting up of market linkages must precede production activity. Also, it is important that there be timely and sufficient provision of inputs, i.e. marketing, credit, support services, structures and management. With regard to credit, the ITC recommended that NGOs be encouraged to participate because they were found to be better able to provide credit (and other support services) to the poor compared with the formal banking structure. The ITC stressed the importance of identifying all potential stakeholders, including their existing capabilities and roles, in order to make the most efficient use of resources so as to optimize the EPVs' output.

68. In commenting on what had made UNCTAD's EMPRETEC programme a success, the speaker underlined trust-building, pro-activeness and the creation of support groups. UNIDO agreed in so far as its experience has proved that motivation and empowerment are crucial factors in building successful networks. The ITC found that besides good project management, careful location and product selection as well as local NGO involvement were necessary for successful EPVs.

69. In response to the three presentations on technical cooperation activities, the experts observed that there was a great degree of complementarity in UNIDO's networking, UNCTAD's entrepreneurship training and the ITC's export promotion villages. The experts expressed satisfaction with the growing cooperation among the organizations in this area. One expert requested that these activities/experiences be described in a manual for SME development for the benefit of developing countries. Another expert repeated her request that an evaluation methodology be developed in order to measure the impact of the programmes. Among the indicators she suggested using were impacts on directly assisted businesses and other businesses, impacts on meso-institutions, impacts on business-government links, and sustainability.

70. It was suggested that the international community should follow the example of the various networking initiatives around the world and form its own network, starting with UNCTAD, UNIDO and the ITC.

## III. ORGANIZATIONAL MATTERS

### A. Convening of the Expert Meeting

71. Pursuant to a decision taken by the Commission on Enterprise, Business Facilitation and Development at its second session (1-5 December 1997),[2/] the Expert Meeting on Clustering and Networking for SME Development was held at the Palais des Nations, Geneva, from 2 to 4 September 1998. It was opened on 2 September 1998 by Mr. Carlos Fortin, Deputy Secretary-General of UNCTAD.

### B. Election of officers

(Agenda item 1)

72. At its opening meeting, the Expert Meeting elected the following officers to serve on its Bureau:

| | | |
|---|---|---|
| Chairperson: | Mr. Paul Frix | (Belgium) |
| Vice-Chairperson-cum-Rapporteur: | Mr. Enio Klein | (Brazil) |

### C. Adoption of the agenda

(Agenda item 2)

73. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in TD/B/COM.3/EM.5/1. Accordingly, the agenda for the Meeting was as follows:

1. Election of officers
2. Adoption of the agenda
3. The role of support structure - public (ministries, regional governments and agencies) and private (e.g. business associations) - in promoting and sustaining clustering and networking for SME development, including policy responses to problems for SMEs in access to finance
4. Adoption of the outcome of the Meeting

### D. Documentation

74. For its consideration of the substantive agenda item (item 3), the Expert Meeting had before it a paper by the UNCTAD secretariat entitled "Promoting and sustaining SMEs clusters and networks for development" (TD/B/COM.3/EM.5/2).

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[2/] See Report of the Commission on Enterprise, Business Facilitation and Development on its second session (TD/B/45/3-TD/B/COM.3/11), annex I, paragraph 12 (ii).

## E. Adoption of the outcome of the Meeting

(Agenda item 4)

75. At its closing meeting, on 4 September 1998, the Expert Meeting authorized the Rapporteur to prepare the final report of the Meeting, under the authority of the Chairperson, to include the agreed conclusions and recommendations adopted by the Meeting (see section I) and the Chairperson's summary of the experts' informal discussions (see section II).

## Annexes

### ANNEX I

### SUMMARY OF INTRODUCTORY STATEMENTS

1. In opening the Expert Meeting, the **Deputy Secretary-General of UNCTAD** explained that it was part of UNCTAD's efforts to develop strategies for enterprise development, called for during the first and second sessions of the Commission on Enterprise, Business Facilitation and Development. In order to develop strategies, the Commission had asked UNCTAD to organize a series of Expert Meetings with the aim of suggesting concrete policy recommendations that could help SMEs build technological capabilities, grow and be better able to compete in the global economy. The current meeting was the third such meeting. The first had considered the roles of government and private actors in SME support, and the second the benefits of inter-firm cooperation of a formal nature. Thus, he emphasized the need to see this third meeting as part of a larger programme of work within UNCTAD.

2. The **Director of the Division on Investment, Technology and Enterprise Development** stressed the changes taking place in the global economy and the challenges that SMEs faced as a result. She noted the potential of networking and clustering in helping SMEs to meet those challenges. Despite trends towards globalization, there was an important role for governments at all levels - central, regional and local - in promoting clustering and networking. She noted that different forms of clusters could exist, ranging from informal clusters to export processing zones. For each type of cluster, however, there were still a large number of unanswered questions concerning the different policies and programmes that might be developed to support such clusters and networks and to enhance the benefits derived from them.

**ANNEX II**

**ATTENDANCE */**

1. Experts from the following States members of UNCTAD attended the Meeting:

Austria
Bangladesh
Belarus
Belgium
Benin
Brazil
Cameroon
China
Costa Rica
Czech Republic
Ecuador
Egypt
Ethiopia
Georgia
Germany
Ghana
Hungary
India
Iran (Islamic Republic of)
Israel
Italy
Japan
Kazakhstan
Madagascar
Mexico
Myanmar
Netherlands
Nigeria
Norway
Pakistan
Philippines
Poland
Romania
Russian Federation
Senegal
Slovakia
Spain
Sudan
Switzerland
Thailand
Trinidad and Tobago
Tunisia
Turkey
Uganda
Ukraine
United Kingdom of Great Britain and Northern Ireland
United States of America
Venezuela
Yemen

2. The following intergovernmental organizations were represented at the Meeting:

Agency for Cultural and Technical Co-operation
Inter-American Development Bank
Latin American Economic System

3. The following specialized agencies were represented at the Meeting:

International Labour Organization
International Monetary Fund
United Nations Industrial Development Organization

4. The Economic Commission for Europe and the United Nations Children's Fund were represented at the Meeting. The International Trade Centre UNCTAD/WTO was also represented at the Meeting.

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*/ For the list of participants, see TD/B/COM.3/EM.5/INF.1.

5. The following non-governmental organizations were represented at the Meeting:

General Category

Women's International League for Peace and Freedom
World Federation of United Nations Associations

Resource persons

Mr. Jorg Meyer-Stamer, Research Fellow, German Development Institute, and Consultant to Federacão das Industrias do Estado de Santa Catarina, Florianopolis (Brazil), Fundacão Empreender, Joinville (Brazil), and GTZ, Private Sector Development Department (Germany)
Mr. Hans Prayon, Vice-President of Hering Textil, and President of the Industrial Association of Blumenau (Brazil)
Mr. Banji Oyelaran-Oyeyinka, Nigerian Institute for Social and Economic Research (Nigeria)
Mr. Rustam Lalkaka, President, Business and Technology Development Strategy (New York)
Mr. Frank Pyke, Honorary Research Fellow, Department of Applied Economics, University of Cambridge (United Kingdom)
Mrs. Giovanna Ceglie, UNIDO
Mr. R. Badrinath, ITC

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